

## CONSOLIDATING HUMAN RESOURCE MANAGEMENT THROUGH CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN CENTRAL AND SOUTHEASTERN EUROPE

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**Summary:** There is a broad consensus in nowadays management theory and practice that the human resources stand for the main success factor of a company in reinforcing its competitiveness in the international business environment. In line with this consideration, the purpose of our paper consists in emphasizing the role of corporate social responsibility (CSR) practices in the area of human resource management (HRM) for strengthening the competitiveness of companies in Central and Southeastern Europe. In this sense, our research focuses on top companies by turnover in Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia, for which we determined a composite index of CSR-HR in order to compare the corporate engagement in a set of employees-related issues. The main aspects that we took into account envisage the following: improvement of labour conditions and job satisfaction, work-private life balance, equal opportunities and promotion of diversity, personnel training and development, participation of employees in the decision-making process, fair payment and financial support for employees. The main findings reflect that the economic performance of the companies encourages the overall CSR measures targeting the employees in the companies from Central and Southeastern Europe countries. Detailed findings on the corresponding components of the CSR-HR index are also presented. The paper ends with strategic recommendations for increasing corporate competitiveness in Central and Southeastern Europe through CSR-HR continuum.

**Keywords:** Corporate social responsibility (CSR), Human resource management (HRM), Competitiveness, CSR-HR composite index, Employees-dedicated CSR measures

### 1. INTRODUCTION

Following the economic crisis, the societal pressure put on companies to increase their corporate social responsibility (CSR) is stronger than ever considering its positive impact for all the stakeholders. In order to better reflect and align to the changes in nowadays business environment, the European Commission has recently proposed a new definition of CSR – “the responsibility of enterprises for their impacts on society”(EC 2011, p. 6), broadly determining the economic, environmental and social influences of the business activities.

The global crisis has also changed the corporate priorities in addressing CSR issues, moving the spotlight from environmental issues to social issues. In the extensive category of the social issues that the companies may address, one key-element refers to consolidating the sustainability of their human resources management (HRM) – a term that could be defined as ‘the sum of corporate actions and measures for recruiting, selecting, managing, training, evaluating and motivating the personnel’. This is why the employees-related CSR policies are gaining more ground in the specialized literature and the empirical evidence.

In this sense, a bidirectional relationship could be established between corporate social responsibility (CSR) and human resource management (HRM): on one hand, the involvement of the employees is a critical factor for the success of the CSR campaigns and, on the other hand, the companies should specifically implement coherent and dedicated CSR policies for

their employees (a prerequisite for assuring the CSR engagement of the employees). The above relationship is approached in a different way at the international level: the efforts in the most developed countries are mainly directed to attracting the employees in supporting the CSR agenda of the companies in order to reaffirm the corporate legitimacy (e.g. Strandberg 2009, for a description of the situation in Canada), meanwhile in the rest of the countries the companies are striving for satisfying the needs of their employees by including CSR in their HR policies. The present research – conducted at the level of the Central and Southeastern Europe – emphasizes the role of CSR in developing a highly articulated HR policy, taking into account the decisive role that the employees play in strengthening the corporate competitiveness and the need of the business organizations to put a greater focus on their employees-dedicated CSR measures.

## 2. CSR AND HRM

The potential of CSR to increase corporate competitiveness and to bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management, and innovation capacity (EC 2011, p. 3) is now generally acknowledged (see, for example, Iamandi 2011, pp. 180-187, Iamandi 2010, pp. 290-294, Popa & Filip 1999, p. 257). More than that, some of the most significant changes in the management science emphasized in the specialized literature (Nicolescu 2001) could be easily associated with, or derived from, the concept of CSR and applied specifically to HRM field: innovation, flexibility, motivation and participative management.

The key advantages that CSR brings for the responsible companies in terms of HRM refer to attracting and keeping high quality and well-motivated employees, that could internalize and transmit further on the corporate values in their interactions with other stakeholders. For achieving this strategic objective, the employees-dedicated CSR measures reflect at least the following six areas: Improvement of labour conditions, including health, safety and security at work, and enhancement of job satisfaction; Work-life balance; Equal opportunities and promotion of diversity at the workplace; Training and personal development, including career planning; Informing and participation of employees in the decision-making process; Responsible and fair remuneration and/or financial support for the employees (e.g. pension systems, interest-free loans etc.) (Austrian Institute for SME Research 2007, p. 4).

The recognition of corporate involvement in specific CSR areas is often complemented with a quantitative approach required by third-party auditors. One of the most well-known methods for measuring and evaluating the corporate involvement is represented by the Global Reporting Initiative (GRI 2011) Sustainability Guidelines, presenting a set of complete indicators that companies could use in order to determine their level of compliance in the following CSR fields: Economic, Environmental and Social ('Labour Practices and Decent Work', 'Human Rights', 'Society' and 'Product Responsibility'). The employees-dedicated CSR measures fall under the categories of indicators 'Labour Practices and Decent Work' and 'Human Rights' (GRI 2011, p. 30, 33).

## 3. EMPIRICAL ANALYSIS OF THE CSR-HR CONTINUUM IN CENTRAL AND SOUTHEASTERN EUROPE

Our empirical analysis examined the CSR-HR continuum by focusing on an original composite index, the ***CSR-HR-DAW Index***, and on its six pillars, reflecting the described basic employees-dedicated CSR measures. Therefore, the CSR-HR binomial was investigated both from an overall perspective (taking into account revenues from sales, country of origin,

operating country and industry field) and a particular perspective (analysing the individual components of the index).

### 3.1. DATA AND METHODOLOGY

In order to study the CSR-HR continuum, our research focused on top companies from the following seven Central and Southeastern Europe countries: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. More precisely, we chose strictly the first five companies, from each country, ranked by revenues from sales 2009 within the Deloitte CE Top 500 Companies Ranking Report 2010 (Deloitte 2010), so as to reflect the economic performance component of our research. For revealing the CSR-HR continuum, we took into account six fundamental employees-oriented measures: *Improvement of labour conditions & job satisfaction*, *Work-private life balance*, *Equal opportunities & promotion of diversity*, *Personnel training & development*, *Participation of employees in the decision-making process*, and *Fair payment & financial support for employees*. The data regarding these measures was collected from several available public documents and on-line sources, such as: the CSR reports, the Sustainability reports, the CSR/Sustainability sections in the corporate annual reports, the corporate codes of ethical conduct, other on-line sources on the companies' websites.

Therefore, our original approach consisted in firstly developing the **CSR-HR composite index** by grading, at the level of each of the 35 companies, the six before mentioned measures, called either 'components' or 'pillars', while considering the following valuation system: **0**, for no mentioning of the pillar; **1**, for an average application of the pillar, compared within the overall sample; **2**, for an excellent application of the pillar, compared within the overall sample. The method of computation consisted further on in averaging the six values for each company, so as the maximum score of the CSR-HR composite index be equal to 1. Taking into account that we are interested in the *development stage* reached by the companies from the CSR in HR point of view, we only took into account in our research the most recent publicly and freely available CSR sources from the previously mentioned ones. Furthermore, considering that CSR could also strategically reveal the image of the company, we reflected the "Data Availability" criterion, also considering that there are many companies that report every two years on their sustainability strategies, by weighting the **CSR-HR composite index** as follows: **1**, for the 2010-2011 available data; **0.9**, for the 2009-2010 available data; **0.8**, for the 2008-2009 available data, and so on.

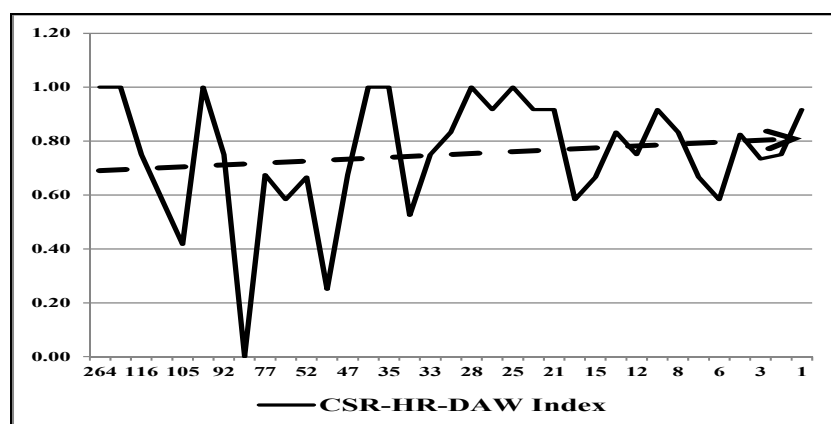
We thus developed the **CSR-HR-DAW Index** (*Corporate Social Responsibility – Human Resources – Data Availability Weighted Index*), while also weighting each of the 6 pillars and developing individual corporate scores: *Improvement of labour conditions & job satisfaction – DAW*, *Work-private life balance – DAW*, *Equal opportunities & promotion of diversity – DAW*, *Personnel training & development – DAW*, *Participation of employees in the decision-making process – DAW*, and *Fair payment & financial support for employees – DAW*.

### 3.2. MAIN FINDINGS

We analysed the CSR-HR continuum by focusing, first, on the overall performance of the developed index and, second, by emphasizing some evidences regarding each of its six components. As *Figure 1* illustrates, it seems that the index reflecting the CSR-HR continuum at the level of the analysed companies exhibits a slight positive trend with respect to the rank of the companies within the Deloitte CE Top 500 Companies when considering revenues from sales. This finding reflects that the economic performance of the companies, mirrored by the

revenues from sales, encourages the overall CSR measures targeting the employees of the companies from Central and Southeastern Europe countries.

**Figure 1: The performance of the CSR-HR-DAW Index**



Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.

**Table 1: The CSR-HR-DAW Industry Average Indices**

Industry	<i>Energy &amp; Resources</i>	<i>Manufacturing</i>	<i>Consumer Business &amp; Transport.</i>	<i>Technology, Media &amp; Telecomm.</i>
CSR-HR-DAW Industry Average Index	0.72	0.78	0.74	0.92
Number of companies	17	10	6	2

Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.

When considering the average value of the index at industrial level, as can be observed in *Table 1*, the analysis for the above mentioned Central and Southeastern Europe countries revealed that the leading industry in terms of CSR-HR measures is the Technology, Media & Telecommunications one. However, taking into account that within our sample this industry accounts only for two companies, the high score might be a consequence of this circumstance and, therefore, the score is likely to evidence signs of bias. We consider more relevant the scores obtained for the other three industries. Firstly, we notice that the three values are quite similar, fact that reflects that the considered top companies, on average, take into account the employees-oriented CSR measures regardless the industry. Secondly, the average scores are fairly high, suggesting that, on average, the managers within these companies acknowledge their HR as a central stakeholder and asset and not only as merely workforce.

**Table 2: The CSR-HR-DAW Country of Origin Average Indices**

Company	<i>Foreign</i>	<i>National</i>
CSR-HR-DAW Country of Origin Average Index	0.84	0.67
Number of companies	16	19

Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.

When analysing the CSR-HR continuum from the perspective of the country of origin, the results displayed in *Table 2* indicate that the foreign companies within the Central and Southeastern Europe analysed countries show, indeed, more propensity towards employees-focused actions. Taking into account that, with few exceptions, the foreign studied companies

are from developed countries, we consider that this result might be the consequence of the general guidelines reflected in the CSR group policy. As far as the score of the average index for the national companies, though sensitively lower than its counterpart, reveal that these companies are focused on applying human resources CSR measures, while still being below the average value of the index, specifically 0.75.

The analysis conducted at the operating country level, displayed in *Table 3*, reflects that the companies applying more intensely HR CSR measures are situated in Hungary. However, this could be explained by the fact that, except one company, all the other four are foreign global companies, with powerful CSR policies. Another country that has an above average score is Slovakia. Taking into account that within the analysed sample in Slovakia two companies are also well-known multinationals, with scores closed to unit, this highly compensates the lower scores of the local companies. As one can notice, three countries have the average score (Czech Republic, Poland and Slovenia). Like the case of the Slovakian top companies, for the Czech and Polish top companies there are two foreign and three local ones. However, the foreign companies' scores are not that high to compensate the lower local scores, and, in some cases, are even lower. An interesting example is Slovenia because all the analysed companies are local ones. Therefore, one can deduce that, the top companies within this country have quite strongly focused on employees CSR policies. The last group of top companies is represented by the ones from Romania and Bulgaria, having below average scores. However, one can notice that the top Romanian companies' average score is close to the general average value, result reflecting the presence of two important foreign companies with high scores and a score equal to unity of a local company. When examining the case of Bulgaria, the result is not surprising considering that the only local company has a score equal to 0.

***Table 3: The CSR-HR-DAW Operating Country Average Indices***

Country	CSR-HR-DAW Country Average Index
Bulgaria	0.67
Romania	0.72
Czech Republic	0.75
Poland	0.75
Slovenia	0.75
Slovakia	0.77
Hungary	0.85

Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.

The first part of the six pillar oriented analysis, displayed in *Table 4*, reflects that four of the averages of the six pillars have values above the average 0.75 score. The results are encouraging, reflecting that the overall index is not simply a result of some high scored components, but a reflection of a tendency towards a consolidated strategy of employees-oriented CSR measures within the Central and Southeastern Europe top companies. The results are not surprising in terms of preferred pillars within the analysed countries as, being companies from emerging and frontier countries, one can expect that these ones apply mostly the basic and strongly company-related measures. Therefore, one could expect that the pillars regarding the work-private life balance and those reflecting the involvement in the decision-making process to receive, on average, less attention, for the time being.

**Table 4: The CSR-HR-DAW Pillars Average**

Pillar	CSR-HR-DAW Pillars Average
Participation of employees in the decision-making process – DAW	0.53
Work-private life balance – DAW	0.56
Equal opportunities & promotion of diversity – DAW	0.81
Fair payment & financial support for employees – DAW	0.84
Improvement of labour conditions & job satisfaction – DAW	0.93
Personnel training & development – DAW	0.94

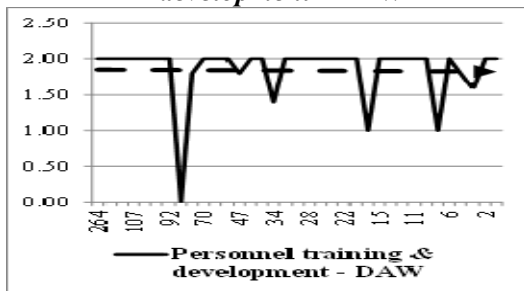
Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.

Regarding the analysis performed at the level of each of the six pillars, considering the rank of the companies within the Deloitte CE 2010 Top 500 Companies in terms of revenues from sales, the results are displayed in *Figure 2* (*Figures 2.1 up to Figures 2.6*).

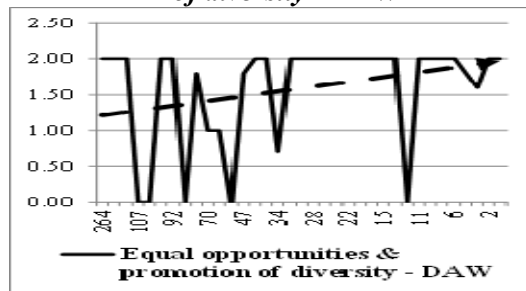
**Figure 2: The performance of the CSR-HR-DAW Pillars Average**

(Source: Authors' representation using Deloitte 2010 report data and various CSR reporting sources.)

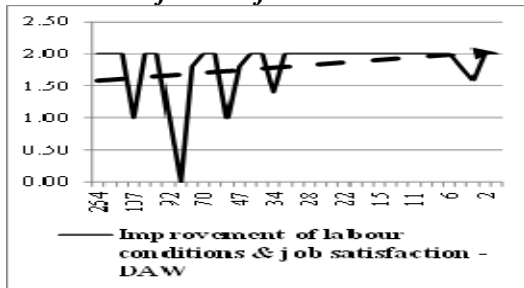
**Figure 2.1: Personnel training & development – DAW**



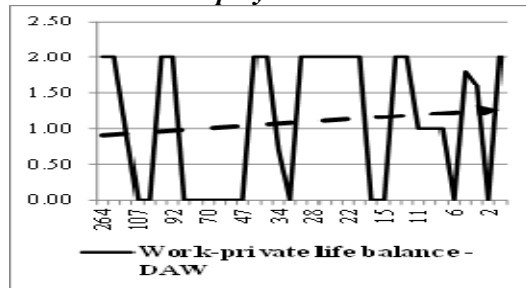
**Figure 2.4: Equal opportunities & promotion of diversity – DAW**



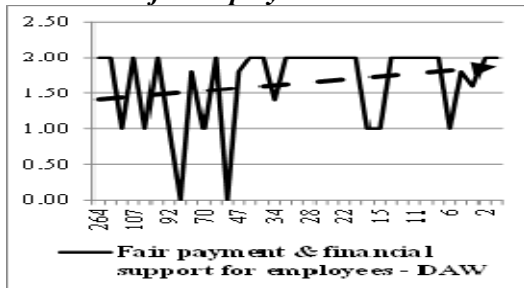
**Figure 2.2: Improvement of labour conditions & job satisfaction – DAW**



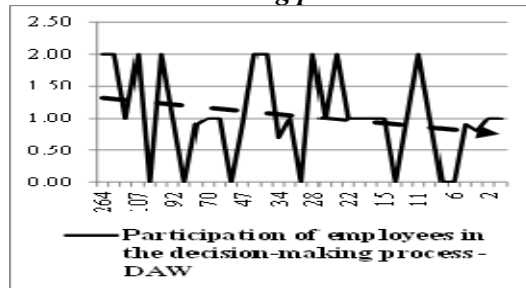
**Figure 2.5: Work-private life balance for employees – DAW**



**Figure 2.3: Fair payment & financial support for employees – DAW**



**Figure 2.6: Participation of employees in the decision-making process – DAW**



As it can be noticed in *Figures 2.2, 2.3, 2.4 and 2.5*, the pillars regarding *Improvement of labour conditions & job satisfaction, Fair payment & financial support for employees, Equal opportunities & promotion of diversity* and *Work-private life balance* seem to unveil a slight positive trend with respect to the rank of the company within the Deloitte CE Top 500 Companies in terms of revenues from sales. These results reveal that the economic performance of the companies, reflected by the revenues from sales, boosts the before mentioned actions targeting the employees of the companies from the Central and Southeastern Europe countries. The other two pillars, *Personnel training & development* and *Participation of employees in the decision-making process*, as can be noticed in *Figure 2.1 and 2.6*, seem to have a negative trend with respect to the company's rank, which could be a result of the fact that the higher the economic performance, the more company will invest in some or all of the other four pillars. Another possible interpretation of this result could be the high degree of centralization of the decision-making in case of very large companies.

#### 4. RECOMMENDATIONS AND CONCLUSIONS

Concerning the relationship between CSR and HR two main trends could be identified at the global level: the first one, the basic one, refers to the CSR measures that the companies may apply for their employees in order to increase their retention and satisfaction degree, recognizing the importance of the personnel in assuring the corporate competitiveness (our empirical analysis is included in this first category); the second one, the more complex one, refers to the promotion of corporate values and CSR policies through the employees that are already well-motivated in the companies and are now communicating further on the model of corporate involvement in ecological, social and ethical issues (this approach comes across rather in the most developed countries of the world, that have already achieved a specific level of economic performance at corporate and national level).

The empirical analysis conducted for the 35 companies pertaining to Central and Southeastern Europe countries emphasized that, in the last years, major corporate advancements took place in terms of including and thoroughly applying employees-related CSR measures in the business strategies of the companies. The economic and financial performance of the analysed companies in Central and Southeastern Europe countries encourages the overall employees-related CSR measures. In the coming years, more focus is needed on those specific measures targeting the involvement of the employees in the decision-making process and a better work-life balance, considered to be more sensitive areas. The general conclusion of the present research is aimed to reaffirm the strong engagement of the analysed companies in Central and Southeastern Europe countries in the employees-related CSR measures in the last years, as a solid recognition of the role played by employees in strengthening corporate competitiveness.

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